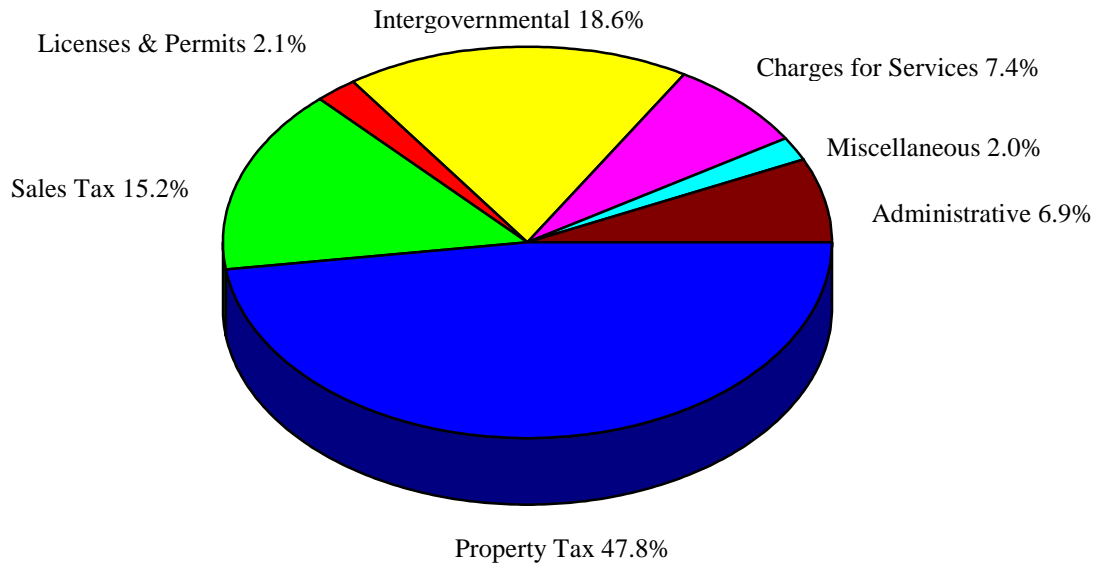


# FY 2005-06 GENERAL FUND

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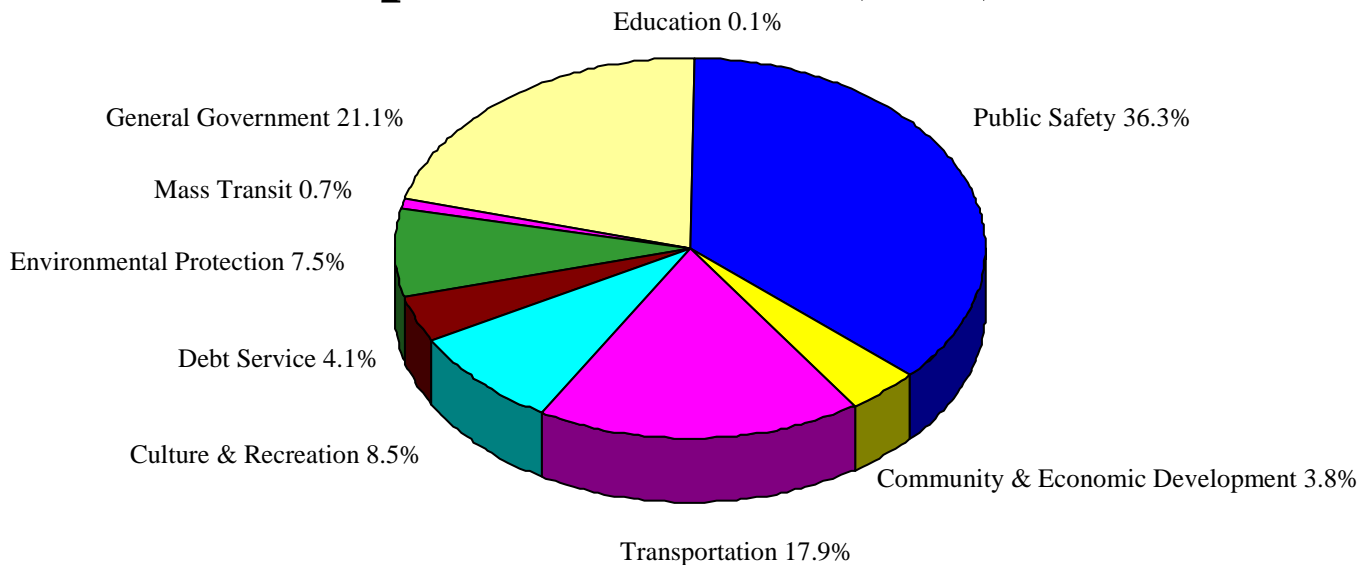
## Revenues - \$29,868,180



## *Where the Money Comes From*

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## Expenditures - \$29,868,180

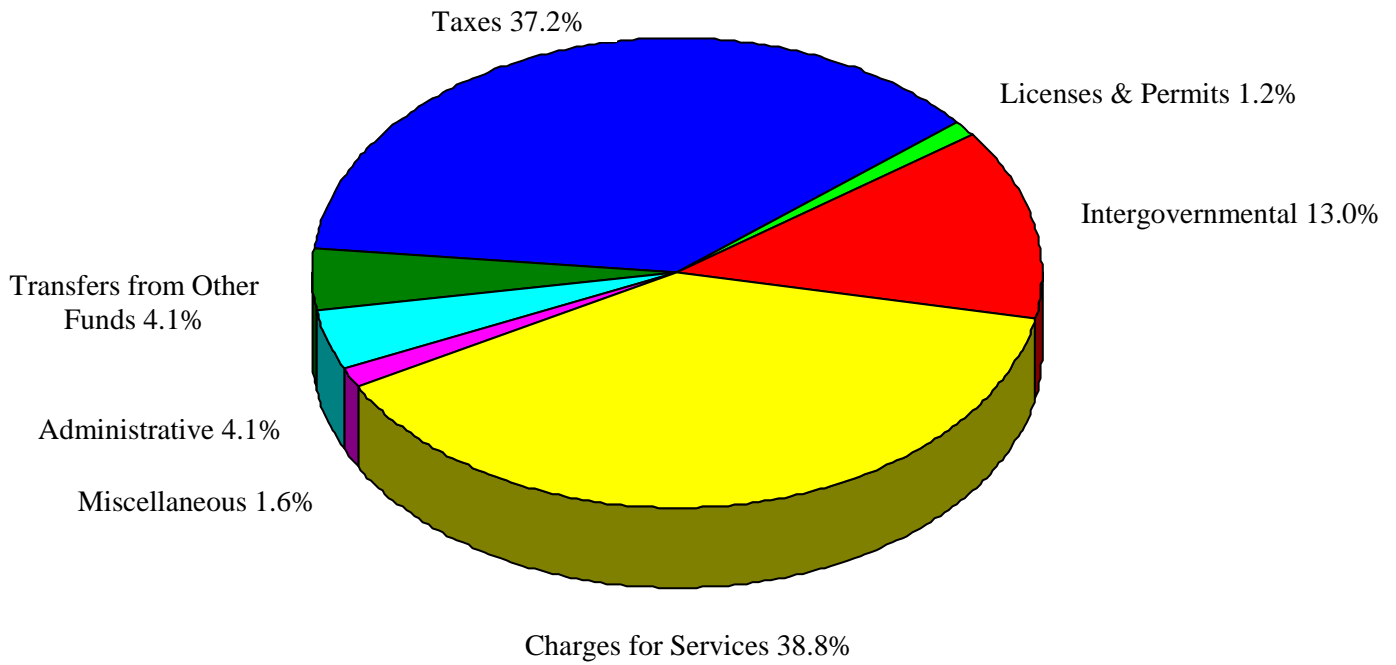


## *Where the Money Goes To*

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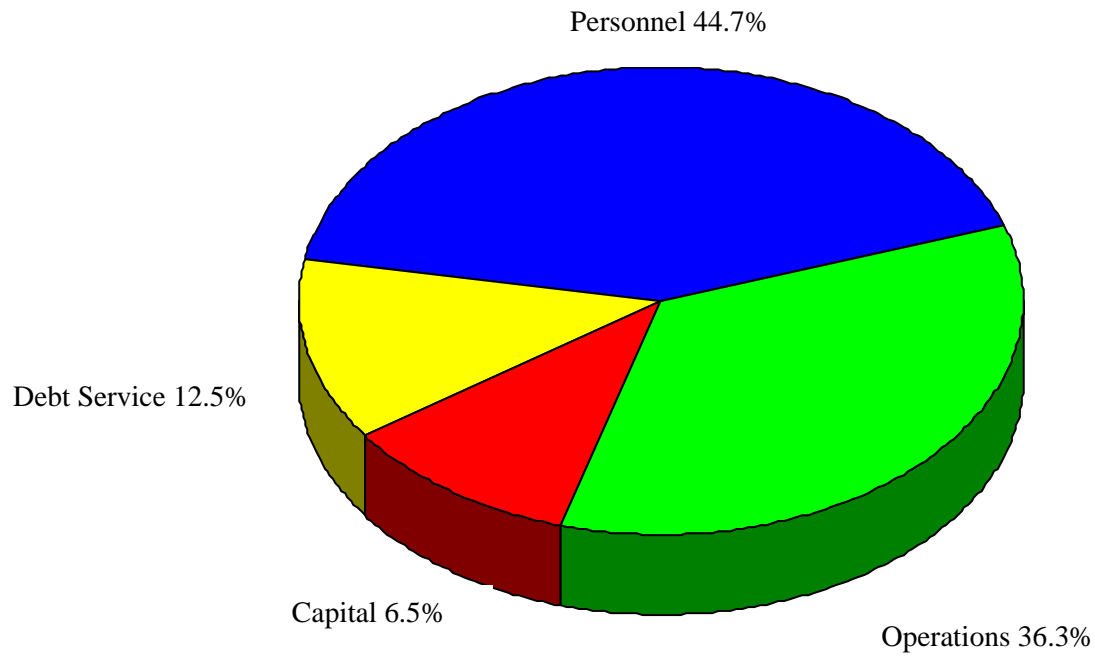
*Includes General Fund and General Fund Capital Reserve Fund Less Interfund Transfers*

## CITY REVENUES BY TYPE (All Funds)



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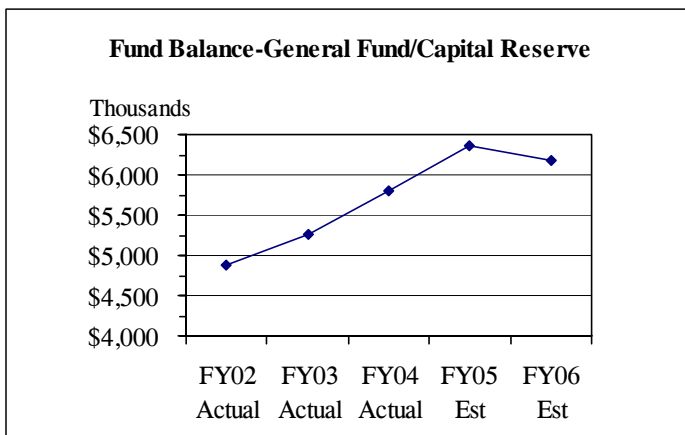
## CITY EXPENDITURES BY CATEGORY (All Funds)



**CITY OF SALISBURY, NORTH CAROLINA**  
**BUDGET SUMMARY**  
**For the Year Ending June 30, 2006**

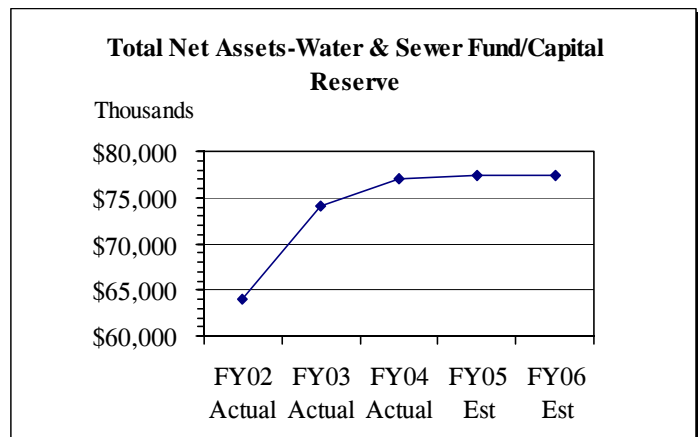
	General/Special Revenue Funds			Enterprise Funds				Total
	General Fund	General Fund Capital Reserve	Entitlement Fund	Water/Sewer	Water/Sewer Capital Reserve	Transit		
Estimated Fund Balance/ Net Assets 6/30/05	\$ 4,744,358	\$ 1,623,630	\$ 100,000	\$ 71,030,034	\$ 382,255	\$ -		\$ 77,880,277
Budgeted Revenues & Other Financing Sources:								
Taxes	\$ 18,823,382	\$ -	\$ -	\$ -	\$ -	\$ -		\$ 18,823,382
Licenses and Permits	614,488	-	-	-	-	-		614,488
Intergovernmental	5,543,917	-	529,149	-	-	495,235		6,568,301
Charges for Services	2,211,798	-	-	17,339,990	-	63,254		19,615,042
Miscellaneous	349,067	30,000	75,000	355,849	6,000	700		816,616
Administrative	2,070,628	-	-	-	-	-		2,070,628
Transfers From Other Funds	-	1,460,303	-	-	422,868	213,118		2,096,289
Total Available Resources	\$ 29,613,280	\$ 1,490,303	\$ 604,149	\$ 17,695,839	\$ 428,868	\$ 772,307		\$ 50,604,746
Expenditures:								
General Government	\$ 6,073,235	\$ 194,711	\$ -	\$ -		\$ -		\$ 6,267,946
Public Safety	10,094,179	733,862	-	-	-	-		10,828,041
Transportation	5,157,390	202,340	-	-	-	-		5,359,730
Environmental Protection	2,087,979	149,600	-	-	-	-		2,237,579
Culture and Recreation	2,425,987	94,000	-	-	-	-		2,519,987
Community & Economic Development	1,137,607	4,842	604,149	-	-	-		1,746,598
Education	42,342	-	-	-	-	-		42,342
Water & Sewer	-	-	-	12,227,013	393,664	-		12,620,677
Mass Transit	-	-	-	-	-	772,307		772,307
Debt Service:								
Principal	739,517	66,166	-	3,222,938		-		4,028,621
Interest	406,523	15,025	-	1,893,020		-		2,314,568
Transfers to other funds	1,673,421	-	-	422,868	-	-		2,096,289
Total Expenditures	\$ 29,838,180	\$ 1,460,546	\$ 604,149	\$ 17,765,839	\$ 393,664	\$ 772,307		\$ 50,834,685
Budgeted Increase (Decrease) in Fund Balance	\$ (224,900)	\$ 29,757	\$ -	\$ (70,000)	\$ 35,204	\$ -		\$ (229,939)
Full Accrual Adjustments: <sup>1</sup>								
Budgeted Capital Outlay	-	-	-	527,000	393,664	44,800		965,464
Budgeted Debt Principal	-	-	-	3,222,938	-	-		3,222,938
Estimated Depreciation	-	-	-	(3,946,701)	-	(140,000)		(4,086,701)
Estimated Fund Balance/ Net Assets 6/30/06	\$ 4,519,458	\$ 1,653,387	\$ 100,000	\$ 70,763,271	\$ 811,123	\$ (95,200)		\$ 77,752,039

<sup>1</sup> The City's budget is developed on the modified accrual basis. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). Budgets for the enterprise funds are adopted on a basis consistent with GAAP except that bond principal payments and additions to fixed assets are treated as expenditures, and depreciation expense is not budgeted.



As of June 30, 2005, the City estimates a General Fund balance of almost \$6,400,000. This is higher than stated in the City's Reserve Policy, as explained on page 2-4. The City anticipates having a surplus of over \$560,000 in FY05 due to improving revenue growth and limiting spending. The graph beside this clearly depicts how the City has improved its financial position since weathering the storm of withheld revenues by the State of North Carolina since FY02.

Through conservative fiscal management, the City has been able to increase and then maintain total net assets in the Water and Sewer Fund for the past five years. However, due to the decreasing volume of water and sewer sold, the Fund expects only minor increases over the next couple years including FY05.



### SUMMARY OF INTERFUND TRANSFERS For the Year Ending June 30, 2006

		TO			
		General Fund Capital Reserve	Water & Sewer Capital Reserve	Transit	TOTAL OUT
FROM	General	\$ 1,460,303	\$ -	\$ 213,118	\$ 1,673,421
	Water & Sewer	-	422,868	-	422,868
	TOTAL IN	\$ 1,460,303	\$ 422,868	\$ 213,118	\$ 2,096,289

### GENERAL FUND REVENUE STRUCTURE

The City's General Fund has five major sources of revenue: taxes, licenses and permits, intergovernmental revenue, charges for services, administrative revenue, and miscellaneous revenue. Taxes are composed of property, sales, vehicle, and dog taxes. Licenses and permits are composed of privilege licenses and cable television franchise fees. Intergovernmental revenues are composed of grants, state-shared revenues, and reimbursements. Charges for services are composed of user fees and reimbursed charges. Administrative revenue represents the Water and Sewer Fund contribution to the operations of the General Fund. Miscellaneous revenues are composed of interest revenue, sales, and revenues not allocated elsewhere.

It would appear that with these various revenue sources, the generation of revenue to meet service level expenditure requirements would be a simple task. This, however, is not the case.

Revenues available to finance our local government can be characterized as either "elastic" or "inelastic." Elastic revenues are highly responsive to changes in the economic base and inflation. As the economic base expands or inflation goes up, elastic revenues rise in roughly proportional or greater amounts. Likewise, they go down during times of deflation and recession. For example, sales tax revenue, though the tax rate remains the same, increases during better economic periods due to the increase in retail business and declines during poor times. Yields from inelastic revenue sources, such as user fees and charges, are somewhat unresponsive to changes in economic conditions and require that government officials change fees and charges to obtain a change in revenue.

Most City revenue sources are inelastic. Two of the few remaining elastic revenues the City has are sales tax revenue and privilege licenses.

Several revenue types such as Powell Bill and sales taxes, are distributed within Rowan County based on population. As the population in Rowan County and other County municipalities has increased in proportion to Salisbury's, the City's share of these revenues has decreased. Without the annexations or other major growth within the City limits, the City will continue to receive a smaller share of the total revenue pool each year.

City revenues have in prior years also face another limitation; the State tampering with state-shared revenues and reimbursements. In the past, the State has eliminated property tax on retail, wholesale, and manufacturers' inventories. They then placed a cap on income to municipalities from intangibles taxes, utility franchise taxes, and inventory reimbursements. This cap on utility franchise taxes expired in FY1994-95. However, growth had been minimal without annexation. Intangibles taxes have been repealed by the General Assembly and replaced with an annual appropriation. Both the intangibles tax and inventory reimbursements were subject annually to the whims of the General Assembly for funding. In FY2002-03, the General Assembly terminated all reimbursements to local governments in North Carolina. They did approve a sales tax of one-half cent to replace them. For Salisbury, the additional one-half cent would only make about half of what the City was losing. Since Salisbury was not the only local government in North Carolina with this problem, the General Assembly did provide a hold-harmless clause which will reimburse some local units like Salisbury for the difference in what the new one-half cent sales tax generates and what was lost in reimbursements. For FY2005-06, the projected amount of the hold-harmless amount is \$707,780.

The City directly controls only property taxes, user fees and charges, privilege licenses, and the Water and Sewer Fund contribution. These four revenue sources are the only ones that City Council can increase or decrease at will. During FY2004-05, these four sources in the General Fund accounted for 68.6% of total revenue. The City lacks control over all other revenues.

Property taxes may be adjusted in two ways. The tax rate can be either changed, and/or the assessed value of the property can be raised or lowered. Each year, City Council sets the property tax rate as part of adopting the annual budget ordinance.

User fees and charges for some services have been established to reimburse the City for all or part of the cost for that service. City Council has absolute control over the services for which a fee is levied and the amount of the fee.

Privilege licenses are controlled both by the State and City Council. A city may levy a privilege license on certain types of businesses and professions as established by State Statutes. The State also sets a maximum rate for some businesses and professions. Most businesses, however, do not have a maximum license rate or amount. City Council has the authority to set a license rate and/or amount for these businesses.

Administrative revenue is the Water and Sewer Fund's contribution to the operations of the General Fund. It represents the Water and Sewer Fund's share of expenses incurred in the General Fund for such things as water and sewer billing, financial administration, fleet management, purchasing, personnel administration, legal, and general management services. The funding of the contribution is a component of the water and sewer rates set by City Council and should not exceed the actual costs incurred in the General Fund for the Water and Sewer Fund's operations.

In summary, most City revenues can be characterized as inelastic with no City control. The City controls only property taxes, user fees and charges, privilege licenses, and administrative revenue.

## **REVENUE ASSUMPTIONS FOR FY2005-06**

### **General Fund Revenue**

#### **Taxes:**

**Property Taxes** - Real property were estimated to increase by 1%, personal property by 2% and public service property 1% over the 2004 assessed values. This estimated growth for real and personal property and public service property is based on historical trend analysis. In addition to this growth, an annexation will also be effective July 1, 2005 which will add approximately \$50,000,000 to the tax base. A 3.0% uncollectible rate was used.

**Prior Year Property Taxes** - Based on historical trends adjusted by the size of the 2004 property tax receivable balance projected as of June 30, 2005.

**Interest on Delinquent Taxes** - Based on historical trends.

**Local Option Sales Tax** - Based on estimates provided by the North Carolina League of Municipalities and last year's sales data (see graph on page 1-8).

**Vehicle Tax** - Based on number of vehicles inside City Limits.

**Other Taxes** - Based on historical trends.

**Licenses and Permits:**

**Privilege Licenses** - Based on a projection of all currently licensed business in Salisbury at the current license rates.

**Franchises** - Based on historical trends for receipts from the cable television company plus additions from annexations (see graph on page 1-8).

**Intergovernmental:**

**Federal** - Based on anticipated and existing grants. The City will receive a grant to help design a replacement bridge and acquire the necessary right-of-way.

**State** - Based on FY2004-05 state shared receipts plus anticipated state grants. As mentioned in the previous section, the City receives funding from the State for the difference in the one-half cent sales tax and the lost reimbursements. The City also receives funding for street maintenance through the Powell Bill Fund, which is allocated based on population and city-maintained street mileage. The City anticipates receiving a grant for greenway construction (see graph on page 1-8).

**Local** - Based on payment in lieu of taxes from the Housing Authority (see graph on page 1-9).

**Charges for Services:**

**Supportive Court Services** - Based on historical trends.

**Community Services** - Based on historical trends for fees relating to development and zoning.

**Environmental Protection** - Based primarily on existing user charges for recycling and landfill tipping fees and the fee for all waste collection costs.

**Culture and Recreation** - Based on projected activities, participation, and fee levels.

**Public Safety** - Based on historical trends for the revenues derived from police and fire protection and charges for radios and pagers to public agencies within the area (see graph on page 1-9).

**Miscellaneous:**

**Interest Earned on Investments** - Based on estimated cash balances during FY2005-06 and estimated interest rates.

**Insurance Proceeds** - Based on historical trends.

**Rentals and Sale of Property** - Based on historical trends (see graph on page 1-9).

**Other** - Based on historical trends and anticipated donations (see graph on page 1-9).

**Administrative:**

**Interfund Revenues** - Based on estimated expenditures for services provided by General Fund departments that are reimbursed by the Water and Sewer Fund. These expenditures are the sum of the estimated percentage of time each General Fund department expends on behalf of the Water and Sewer Utility multiplied by the departmental budget. This transfer amount is calculated annually.

**General Fund Capital Reserve Fund Revenue****Miscellaneous:**

**Interest Earned on Investments** - Based on estimated cash balances during FY2005-06 and estimated interest rates.

**Other** - Based on historical trends.

**Other Financing Sources:**

**Operating Transfer from General Fund** - Funding based on vehicle and computer replacement schedules that the General Fund will place in reserve for future vehicle and computer purchases.

**Water and Sewer Fund Revenue****Operating Revenues:**

**Charges for Services** - Based on estimates using historical volumes, trends, projections, and revised rates based on a comprehensive rate review completed in April 2005.

**Nonoperating Revenues:**

**Interest Earned on Investments** - Based on estimated cash balances during FY2005-06 and estimated interest rates.

**Miscellaneous Revenues** - Based on historical trends.

## Water and Sewer Capital Reserve Fund Revenue

### Miscellaneous:

**Interest Earned on Investments** - Based on estimated cash balances during FY2005-06 and estimated interest rates.

### Other Financing Sources:

**Operating Transfer from Water and Sewer Fund** - Funding based on vehicle and computer replacement schedules that the Water and Sewer Fund will place in reserve for future vehicle and computer purchases.

## Transit Fund Revenue

### Operating Revenues:

**Charges for Services** - Based on estimates using historical ridership and trends.

### Nonoperating Revenues:

**Intergovernmental** - Based on estimates provided by the State of North Carolina.

**Miscellaneous Revenues** - Based on historical trends.

### Other Financing Sources:

**Contributed Capital** - The amount of funds provided for purchase of capital items.

**Operating Transfer from General Fund** - The amount of subsidy that the General Fund will provide the Transit Fund during FY2005-06.

## Special Revenue Funds Revenue

### Intergovernmental:

**Federal** - Based on an estimate provided by the U.S. Department of Housing and Urban Development.

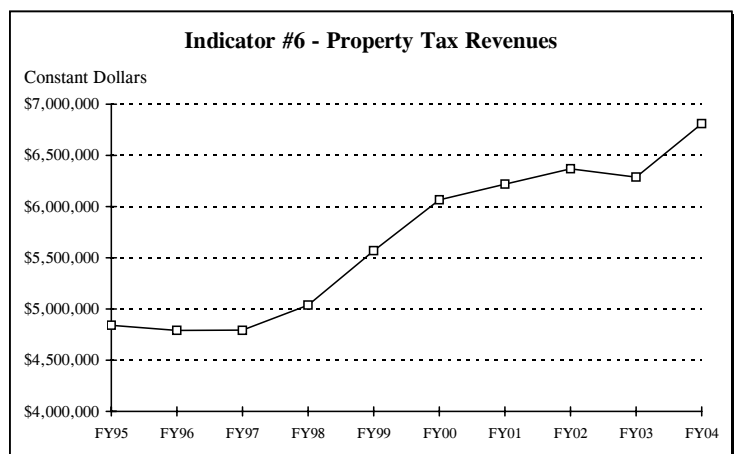
### Miscellaneous:

**Other** - Based on anticipated program income.

## TREND MONITORING

As noted previously, many revenues are budgeted based on historical trends. Trend monitoring is an essential element in the budgeting process for the City of Salisbury. Revenue information by line item is available for the current fiscal year, along with actual revenues for the past two fiscal years. The information is then evaluated based on past trends in conjunction with current estimates.

At the end of each fiscal year, trend information is gathered using the Financial Trend Monitoring System, which allows the City to monitor its financial condition. The Financial Trend Monitoring System is based on financial, organizational, and environmental factors that influence financial condition. The factors are translated into indicators, which are then converted into graphs. Each graph has a warning sign that can necessitate appropriate action from the City. On the right is an example of a trend the City monitors. As shown in the graph, the City has experienced growth in property tax revenues in the past few years.

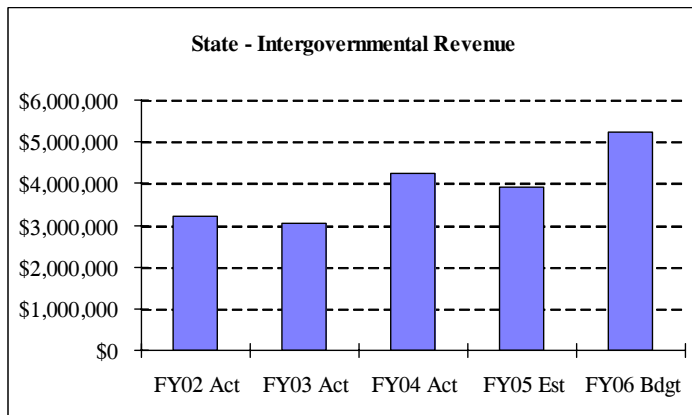


#### WARNING TREND:

Decline in property tax revenues (constant dollars)

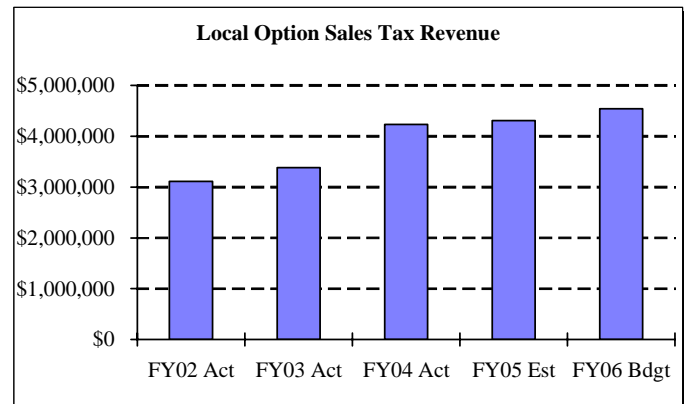
## OTHER REVENUE TRENDS

The following graphs are two of the other major revenue sources for the General Fund.

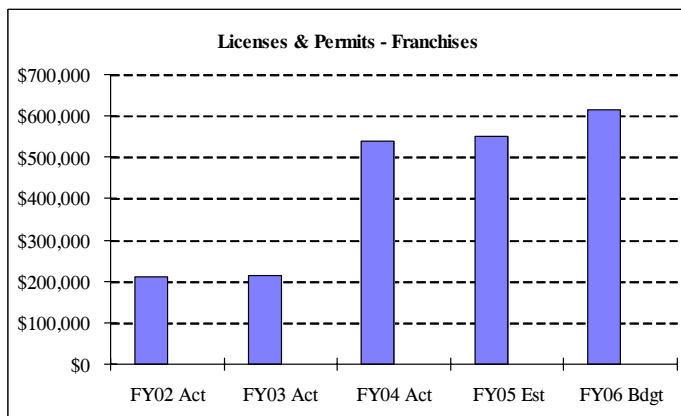


As stated in the assumptions, this revenue source is comprised of state-shared receipts and state grants. Due to the North Carolina State budget crisis, the Governor had withheld inventory reimbursements and utilities franchise tax from local governments in FY02. Subsequently in FY03, the General Assembly terminated all reimbursements to local governments in North Carolina. But since FY04, the State has reimbursed the City for the difference between the reimbursements and the estimated receipts from the new one-half cent sales tax. In FY06, the City anticipates receiving a grant for greenway construction

This revenue is based on the 1% and ½% local option sales tax. As discussed under General Fund Revenue Structure, this revenue source is elastic. Due to the slow retail climate and retail construction in the past year,, the City is projecting slight growth from the sales tax. But since FY04, the City received the effect of a full year of the one-half cent sales tax, as approved by Rowan County in December 2003.



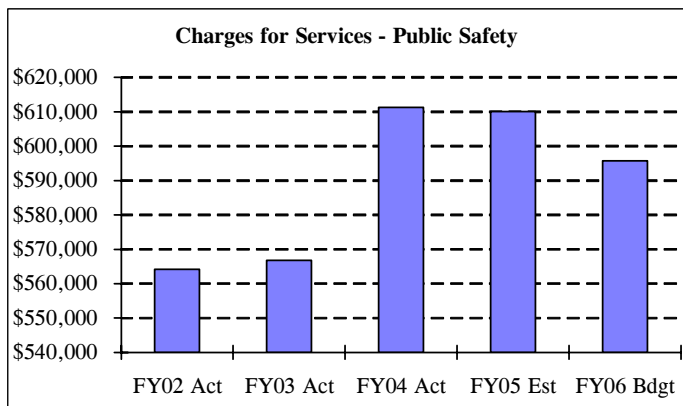
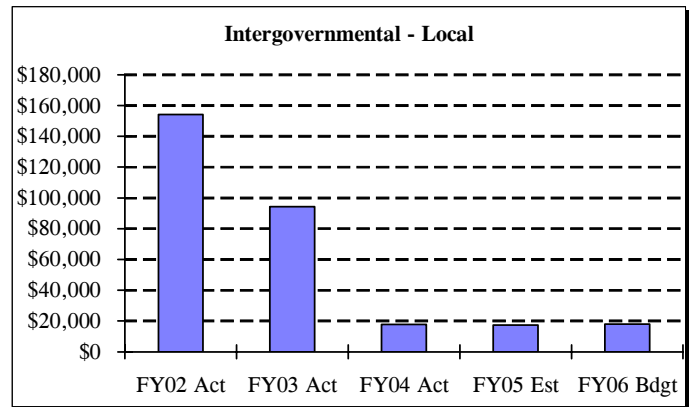
The following graphs depict major revenue sources that are based on historical trends. Each graph has a brief description of that particular revenue source along with an analysis of the trends.



These revenues are based on gross revenues within the City limits of the cable television company. As revenue base for the cable company increases, so does the revenue received by the City.

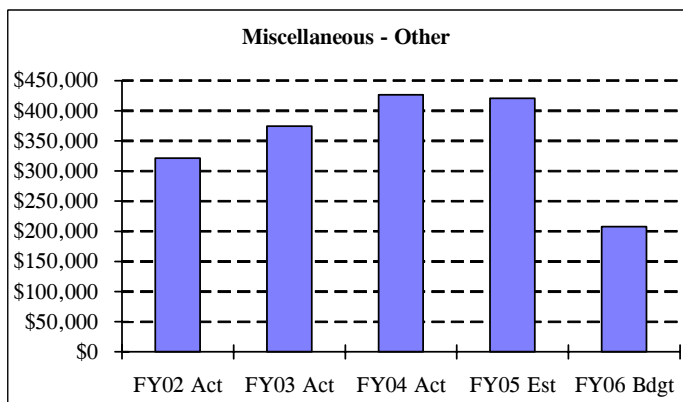
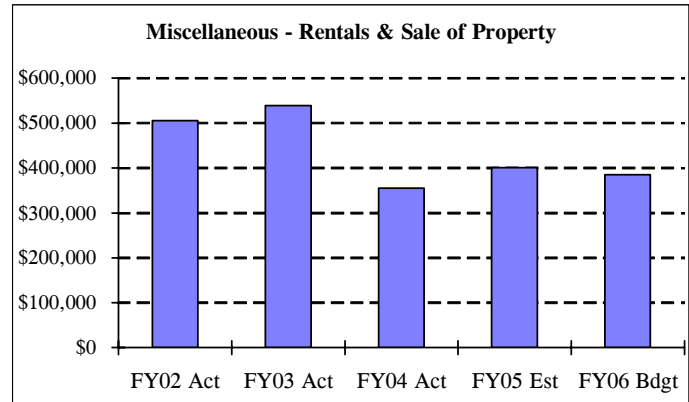


These revenues are from the Salisbury Housing Authority. This revenue is payment in lieu of taxes as partial compensation for the property tax for which the agency is exempt. In the past, the Housing Authority also reimbursed the City for the personnel costs for police officers working within the Housing Authority. In FY02, the Housing Authority received a grant to enhance police patrol. But in FY03, funding was discontinued for the reimbursement of one officer and funding for the remaining officer was discontinued in FY04.



These revenues are derived from police and fire protection, and charges for radios and pagers to public agencies within the area. In FY96, the City implemented a fee for permits and inspections by the Fire Department. Beginning in FY97, the Rowan-Salisbury School System started paying for one-half the cost of a third School Resource Officer as they have for the previous officers hired.

For FY06, fifty percent of this revenue category is comprised of rentals. Rental revenue, both residential and commercial, from the Plaza continues to increase along with rental of the Salisbury West Community Center and revenue from a parking lot. Other revenue sources for this category include sale of assets, sale of materials, cemetery sales, and rental of Hurley Park.



This revenue is subject to significant fluctuation due to General Fund donations and miscellaneous revenue.

